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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF DUNCAN RURAL SERVICES CORPORATION FOR A RATE INCREASE	DOCKET NO. G-02528A-05-0314
IN THE MATTER OF THE APPLICATION OF DUNCAN RURAL SERVICES CORPORATION FOR APPROVAL OF A LOAN IN THE AMOUNT OF $400,000	DOCKET NO. G-02528A-03-0205 **NOTICE OF FILING REJOINDER TESTIMONY**

Duncan Rural Services Corporation ("DRSC") provides this notice that it has filed the Rejoinder Testimony of Jack Shilling and John V. Wallace.

RESPECTFULLY SUBMITTED this 12th day of December 2005.

By ____________________

John Wallace
Grand Canyon State Electric Cooperative Assn. Inc.
Consultant for Duncan Rural Services Corporation

Original and thirteen (13) copies filed this 12th day of December 2005 with:

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

By ______________________

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER Chairman
WILLIAM A. MUNDELL
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REJOINDER

TESTIMONY

OF

JACK SHILLING

CHIEF EXECUTIVE OFFICER
DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

December 12, 2005

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I. INTRODUCTION

Q. Please state your name, address and occupation.

A. My name is Jack Shilling. My business address is 222 Highway 75, P.O. Box 440, Duncan, Arizona. I am Chief Executive Officer of Duncan Valley Electric Cooperative, Inc. ("DVEC"). Through an Operations and Management Agreement, Duncan Valley manages the day-to-day operations of Duncan Rural Services Corporation ("DRSC").

Q. Did you file direct and rebuttal testimony in this matter?

A. Yes.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What issues will your rebuttal testimony address?

A. My rebuttal testimony will address Long Term Debt ("LTD"), capital structure and the purchased gas adjustor.

Q. Please summarize your rebuttal recommendations.

A. The Staff recommendation for a 30 percent equity percentage goal for DRSC and a recommendation for DRSC to discontinue the use of cash advances from Duncan Valley Electric Cooperative ("DVEC") will require that a higher amount of revenues and LTD be approved. DRSC recommends that additional LTD of $600,000 be approved to allow DRSC to meet its borrowing needs through 2006.

On the basis of the Commission approving $600,000 of additional LTD for DRSC and Staff's recommendation to increase its equity ratio by 5.00% per year, DRSC would further recommend that two additional rate increases be phased-in; one rate increase effective January 1, 2007 for 5 percent across the board for all its customers and a second rate increase effective January 1, 2008 for 5 percent across the board for all its customers.

Finally, DRSC recommends that it be allowed to manage its bank balance as close to $0.0 as possible. DRSC recommends it be allowed to do this by using a 12 month rolling average cost of gas and increase or decrease the average cost of gas by up to $0.10 per month to move the bank balance closer to zero.

II. Long Term Debt and Capital Structure

Q. Does DRSC agree with Staff's recommendation to authorize $330,484 of additional Long Term Debt (LTD) and classify the remaining advances of $171,616 as an equity infusion from DVEC?

A. No, it does not. The $171,616 of remaining advances represent funds that DVEC advanced to DRSC to meet it's operating and capital expenditures. DVEC's intent with providing the advances is that they would be repaid at some point in the future. If the $171,616 of advances is classified as an equity infusion, this amount will likely become a permanent contribution from DVEC.

Q. Does classifying the remaining advances of $171,616 as an equity infusion result in cost shifting to DVEC's members?

A. Yes, it would. DVEC currently has approximately 1,500 customers who are not customers of DRSC. Classifying the remaining advances of $171,616 as an equity infusion will result in cost shifting to these 1,500 members of DVEC because they will probably not be repaid. If these funds are treated as advances or LTD, they will eventually be repaid and no cost shifting will occur.

Q. Please comment on Staff's concerns about cost shifting from DRSC's past to its current members if the advances that paid for DRSC's past operating expenses are converted to LTD?

A. DRSC and DVEC would by far prefer to have a small portion of the past operating expenses of DRSC shifted from a few customers who have left DRSC's system to DRSC's remaining customers than to the approximately 1,500 customers of DVEC who are not customers of DRSC. Classifying the remaining advances of $171,616 as an equity infusion will result in cost shifting to these 1,500 members of DVEC. If these funds are treated as advances or LTD, they will eventually be repaid and no cost shifting will occur.

Q. Staff has described the historical cash advance relationship that has developed between DVEC and DRSC as being inappropriate. Please comment.

A. The fact remains that without these cash advances from DVEC, DRSC would be insolvent, DRSC would have not been able to make the necessary capital improvements to its systems and DRSC's rates would have needed to be significantly higher. DRSC's board and management have attempted to balance the need for significantly higher rates and capital improvements through the use of advances from DVEC.

Q. Has Staff addressed how the $80,000 of projected capital improvements for 2005 and 2006 will be funded by DRSC?

A. No, it has not. Staff has recognized the potential for a cash short-fall with respect to purchased gas costs by recommending approval of a LOC but it has not recognized the cash flow needs associated with additional capital expenditures. DRSC continues to recommend that additional LTD of $600,000 be approved. This $600,000 would cover the $502,000 of current advances from DVEC as well as allow DRSC an additional $98,000 for future advances from DVEC.

Q. Do Staff's surrebuttal recommendations on DRSC's cash advances bring DRSC into compliance with Arizona Revised Statute ("ARS") 40-302.D?

A. No, Staff's surrebuttal recommendations do not. In fact, Staff's recommendation that DRSC discontinue the use of unauthorized cash advances from DVEC will make DRSC insolvent and unable to pay bills when they come due. If the Staff recommended LTD amount of $330,484 is adopted, approval for an additional LTD (or LOC) with DVEC should be approved to address DRSC's capital and operating expenditures in 2005 and 2006.

Q. Staff has stated that its recommendation that DRSC improve its equity ratio by 5 percent will only require a positive margin of $18,194 or the total amount of capital of $363,884 multiplied by 5 percent. Does DRSC agree?

A. No. DRSC does not agree with Staff's calculation. Staff has used a total capital amount that does not include its recommended additional LTD of $330,484. When this amount is included, the Staff calculation of the amount of positive margin required increases to approximately $35,000 (363,884 + 330,484 = $694,368 * 5.00%). Consequently, Staff's calculation of the excess margin that DRSC has to pay for interest, depreciation and the 5 percent equity requirement decreases from the $24,488 to $7,963. The $7,963 amount of excess margins is not enough to meet the $9,280 of expenses associated with the $80,000 of additional capital requirements of DRSC in year one as listed in the table in Dan Zivan's surrebuttal testimony on page 9, lines 13-14. This table also does not take into account that DRSC's salaries and benefits expenses have been increasing by approximately $11,000 per year or any other expenses that may increase in the future.

Q. Given Staff's recommendations in its surrebuttal testimony, will DRSC be able to continue to limit its rate increase requests to once every three years?

A. No, it will not. DRSC will need to apply annually for rate increases to fund its $80,000 annual capital expenditure budget and to increase its equity ratio by 5 percent per year.

Increases in variable interest expense and PGA under-collection could also necessitate annual rate increase filings.

Q. Given Staff's recommendations in its surrebuttal testimony, has DRSC eliminated its recommendation for two additional rate increases of 5 percent in 2007 and 2008?

A. No, it has not. However, DRSC is correcting and modifying proposal that appeared in my rebuttal testimony. On the basis of Staff's surrebuttal testimony recommendations, DRSC would further recommend that two additional rate increases be phased-in; one rate increase effective January 1, 2007 for 5 percent across the board for all its customers and a second rate increase effective January 1, 2008 for 5 percent across the board for all its customers. I had mistakenly stated 2006 and 2007 in my rebuttal testimony. Also, DRSC believes that it will be simpler for the Commission to authorize in this order a precise amount of 5 percent rather than my original "up to" proposal.

III. Purchased Gas Adjustor

Q. Does Staff's recommendation to allow a DRSC to borrow funds from DVEC under a Line of Credit ("LOC") agreement address DRSC's concerns regarding gas price fluctuations and DRSC's Purchased Gas Adjustor (PGA) being able to recover gas costs in a timely fashion?

A. No, it does not completely address these concerns. DRSC appreciates Staff's attempt to address the cash flow issues associated with the PGA due to higher gas costs. However, Staff's recommendation is contrary to its other recommendations for DRSC to seek rate relief in a more timely fashion, to avoid the use of advances from DVEC and to avoid financing operating expenses. As stated previously in my testimony in this case, DRSC will continue to experience price fluctuations in its cost of gas that can not be adequately addressed by its current PGA. If DRSC's PGA rate can not be adequately increased or decreased to recover higher or lower gas costs, then DRSC will need an advance or LOC from DVEC to finance an operating expense, DRSC's customers will have to pay interest on the amount of the advance or LOC and the higher cost of winter gas is shifted to summer irrigation users who only use a small amount of gas in the winter.

Q. Is DRSC's existing PGA mechanism adequate to recover or refund significant gas price increases or decreases?

A. No, it is not. DRSC's current PGA mechanism is inadequate to address significant price fluctuations as demonstrated by the need for DRSC to file two surcharge applications in the last four years. Decision No. 63369 (February 15, 2001) approved a surcharge for DRSC of $0.4165 per therm. Decision No. 68297 (November 14, 2005) approved a surcharge for DRSC of $0.45 per therm. The current PGA mechanism has caused the DRSC to request a higher and longer surcharge increase than what would have been necessary had DRSC been allowed to manage its bank balance as close to $0.00 as possible. Under DRSC's PGA proposal, DRSC would be able to gradually increase or decrease the PGA rate when price fluctuations start to occur which will result in lower price fluctuations and better price signals for its customers.

Q. Have DRSC's recommendations regarding the PGA changed from what you stated in your rebuttal testimony?

A. No, for the reasons stated above. DRSC recommends that it be allowed to manage its bank balance as close to $0.00 as possible. DRSC recommends it be allowed to do this by using a 12 month rolling average cost of gas and increase or decrease the average cost of gas by up to $0.10 per month to move the bank balance closer to zero. This will allow DRSC to phase in gas cost increases or decreases to its customers, should mitigate rate shock, should avoid cost shifting among customer classes and should mitigate the need for surcharge applications and cash advances or LOC from DVEC for gas cost increases.

Q. Does that conclude your rejoinder testimony?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
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IN THE MATTER OF THE APPLICATION OF DUNCAN RURAL SERVICES CORPORATION FOR A RATE INCREASE	DOCKET NO. G-02528A-05-0314
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REJOINDER

TESTIMONY

OF

JOHN V. WALLACE

DUNCAN RURAL SERVICES CORPORATION

December 12, 2005

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I. INTRODUCTION

Q. Please state your name address and occupation.

A. My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of Grand Canyon State Electric Cooperative Association (GCSECA). I represent Duncan Rural Services, Inc. (DRSC or the Company).

Q. Did you file direct and rebuttal testimony in this matter?

A. Yes.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What areas does your rebuttal testimony address?

A. My testimony addresses two primary areas: revenue requirement and rate design.

Q. Please summarize your recommendations.

A. Rebuttal Schedule A-2, page 1 of 2, summarizes operating results at present and proposed rates for the 12 months ended December 31, 2004, the test year in this case. The present rates produced a net/total margin deficit, or loss, of $86,106 on an adjusted test year basis. The proposed $167,705 increase in revenues produces a positive net/total margin of $39,031 and a corresponding times interest earned ratio (TIER) of 2.00 in contrast to the current negative net TIER of 1.20.

DRSC accepts the Staff adjustments to its proposed rate base calculation as found on DTZ-3. DRSC is recommending the Staff proposed OCRB of $758,057 on DTZ-3 be adopted by the Commission in this case.

DRSC's Rebuttal Schedule C-1 shows the adjustments made to DRSC's test year revenues and expenses as a result of Staff's direct testimony.

Per Mr. Jack Shilling's rebuttal testimony, DRSC is recommending $600,000 of additional Long Term Debt ("LTD") be approved by the Commission. $502,000 of the $600,000 of additional LTD would be recovered through DRSC's recommended rebuttal rates. The $502,000 is the amount of current advances owed to Duncan Valley Electric Cooperative, Inc. ("DVEC"). This LTD would have a variable interest rate (assumed 5 percent) with repayment over 25 years.

If the Commission does not adopt DRSC's recommended revenue requirement, DRSC recommends that the rate case expense be amortized over a 2 year period and Staff's adjustment to rate case expense of $4,851 (ADJ #4) shown on Schedule DTZ-7 be rejected.

DRSC stipulates to the testimony, recommendations and schedules as found in Mr. Prem Bahl's direct testimony.

DRSC agrees with the Staff testimony that recommends setting the base cost of gas to zero and in the future having the entire cost of gas be recovered from the fuel adjustor for the reasons stated in Staff's testimony.

However, DRSC recommends that the rates and charges as shown under the column entitled Company Proposed Rates on SPI-4, page 1 of 1, be approved.

DRSC is recommending the winter per therm rate be set at $0.73 and the summer per therm rate be set at $0.26 for all three customer classes. These per therm rates reflect

DRSC's higher revenue requirement that has been recommended in its rebuttal testimony. Refer to Rebuttal Schedules H-4 pages 1-3 for a typical bill analysis for the three customer classes.

DRSC is further recommending that the Commission reject Staff's recommendation for the Above 425 cfh to 1,000 cfh class to pay a significantly higher per therm rate than the other customer classes.

DRSC is recommending that the Commission approve the same interest rate on customer deposits (Three Month Non-Financial Commercial Paper Rate as published by the Federal Reserve) that was approved in DVEC's recent rate case (Decision No. 67433, dated December 3, 2004).

II. REVENUE REQUIREMENT

Operating Income

Q. Has DRSC's recommended revenue, net/total margin and TIER amounts as found in its rebuttal testimony changed as a result of Staff's surrebuttal testimony?

A. No. Rebuttal Schedule A-2, page 1 of 2, summarizes operating results at present and proposed rates for the 12 months ended December 31, 2004, the test year in this case. The present rates produced a net/total margin deficit, or loss, of $86,106 on an adjusted test year basis. The proposed $167,705 increase in revenues produces a positive net/total margin of $39,031 and a corresponding times interest earned ratio (TIER) of 2.00 in contrast to the current negative net TIER of 1.20.

Q. Please discuss Staff's adjustment to Interest Expense on Long Term Debt (LTD) of $8,019 (ADJ #6) shown on Schedule DTZ-7.

A. Staff has recommended that DRSC's additional LTD should be increased from $268,988 to $330,484. Staff has also decreased DRSC's proposed interest expense on the additional LTD from a variable annual rate of 6 percent to a variable rate of 2.725 percent which is equal to Arizona Electric Power Cooperative's (AEPCO) current variable interest rate earned on funds that cooperatives have deposited with AEPCO.

Q. Is the interest rate that DVEC is currently charging DRSC for advances equivalent to an interest rate that DVEC should charge on a LTD with a repayment period of 25 years?

A. No, it is not. DVEC is charging DRSC an interest rate on advances which is equal to AEPCO's current variable interest rate earned on funds that cooperatives have deposited with AEPCO. This interest rate is a deposit interest rate not a LTD interest rate.

Q. Is a deposit interest rate typically significantly lower than an interest rate on LTD with a term of 25 years?

A. Yes, it is. A lender has significantly more risk associated with a LTD that has a 25 year repayment period than with a short term deposit interest rate.

Q. Does the Staff recommendation to allow a variable rate of 2.725 percent which is equal to Arizona Electric Power Cooperative's (AEPCO) current variable interest rate earned on funds that cooperatives have deposited with AEPCO recognize this difference in risk?

A. No, it does not. Staff recommends the same interest rate for a 25 year LTD as DVEC earns on its deposits.

Q. In your rejoinder testimony, have you provided some evidence of this difference between interest rate for LTD versus deposits?

A. Yes, I have. I have attached to this testimony the current interest rates offered by National Rural Utilities Cooperative Finance Corporation (CFC). CFC's current variable interest rate for a loan with a 25 year term is 6.25 percent. I have also attached the Federal Reserve Statistical Release which demonstrates that the corporate bond interest rate for a corporation with a rating of Aaa is approximately 5.4 percent. A bond from a corporation with a rating of Baa is paying an interest rate approximately 6.36 percent.

Q. Given DRSC's financial condition, would it be eligible to borrow from a third party at any of these interest rates?

A. No. Even if it were able to borrow money from a third party, it would be borrowing at a significantly higher interest rate than the rates listed above.

Q. What amount of interest expense is DRSC recommending be recovered in this case?

A. DRSC is recommending that $39,187 of interest expense be approved in this case. This interest expense amount is equal to the interest expense of $14,087 on existing LTD plus $25,100 (5.00 percent interest times $502,000 of advances from DVEC as of September 30, 2005). The interest expense on the outstanding amount of LTD of $98,000 ($600,000 of proposed LTD minus $502,000 of current DVEC advances) will be recovered from customers through the two phased-in rate increases of 5 percent that are discussed in Jack Shilling's rebuttal testimony.

Q. In its rebuttal testimony, has DRSC accepted Staff's adjustment to rate case expense of $4,851 (ADJ #4) shown on Schedule DTZ-7?

A. Yes. In its rebuttal testimony, DRSC accepted Staff's adjustment to Rate Case Expense of $4,851 (ADJ #4) shown on Schedule DTZ-7. Staff's adjustment amortized DRSC's rate case expense over a three year period rather than the two year amortization recommended by DRSC. However, DRSC reserved the right to argue its position on this adjustment in rejoinder testimony if its rebuttal recommendations were not adopted.

Q. Has Staff adopted DRSC's rebuttal testimony recommendations?

A. No, it has not.

Q. In its rejoinder testimony, Is DRSC recommending that Staff's adjustment to rate case expense of $4,851 (ADJ #4) shown on Schedule DTZ-7 be adopted by the Commission?

A. No, it is not. For the reasons set forth in Mr. Shilling's rebuttal testimony, DRSC may have to apply for rate increases annually to comply with the Staff recommendations on equity and advances from DVEC. Consequently amortizing the rate case over a three year period as proposed by Staff is not appropriate in this case. If the Commission does not adopt DRSC's recommended revenue requirement, DRSC recommends that the rate case expense be amortized over a 2 year period and Staff's adjustment to rate case expense of $4,851 (ADJ #4) shown on Schedule DTZ-7 be rejected.

III RATE DESIGN

Q. Does DRSC agree with the Staff proposed rate design as shown on its surrebuttal SPI-4, page 1 of 1?

A. No it does not. DRSC recommends that the rates and charges as shown under the column entitled Company Proposed Rates on SPI-4, page 1 of 1, be approved.

Q. Does DRSC agree with the Staff proposed per therm rate design as shown on SPI-4, page 1 of 1?

A. No, it does not. The per therm rates shown on SPI-4 page 1 of 1 do not reflect a winter and summer cost differential and are different for each customer class.

Q. Does DRSC's per therm rate design reflect a winter and summer cost differential?

A. Yes, it does. DRSC's distribution system has been sized to meet its peak demands during the winter months. Consequently, the costs of providing service not only vary from summer to winter due to gas costs, there is a variance in DRSC's capacity/demand costs due to its peak winter season. For these reasons, DRSC is still proposing a higher winter per therm rate than the summer per therm rate as found on rebuttal Schedule H-3.

Q. Do each of the customer's classes place a similar demand on the system during the five peak winter months?

A. No. As stated previously, the irrigation customers in the Above 250 cfh to 425 cfh class primarily use gas during the off peak summer months. The Above 250 cfh to 425 cfh customers used 20,980 therms in the five peak winter months compared to 148,600 therms used by these customers in the other months. During the Test Year, DRSC's peak month for therm usage was February. In that month, irrigation customers used only 3,751 therms of the 83,019 therms sold to all DRSC customers.

Q. What are the potential impacts to DRSC if Staff's per therm rate design is adopted by the Commission?

A. The irrigation customers in the Above 250 cfh to 425 cfh class are price sensitive and will convert their pumps to electric power or decide not to pump any water. If this occurs, then DRSC will lose all of the revenue from these irrigation customers which will result in higher rates for DRSC's remaining customers. The Staff recommended per therm rate design may also encourage irrigation customers to use gas in winter months which would result in DRSC having to increase its capacity to meet this new demand. This would make DRSC's capital budget even higher than the $80,000 that is projected.

Q. Staff has stated concerns in its testimony about cost shifting among customers. Will Staff's per therm rate design result in cost shifting?

A. Yes, it will. It shifts costs from winter peak customers to irrigation customers who may leave DRSC's system. It also shifts significantly higher costs to the Above 425 cfh to 1,000 cfh class.

Q. What customers are currently taking service under the Above 425 cfh to 1,000 cfh tariff?

A. The school district is currently the only customer taking service under the Above 425 cfh to 1,000 cfh tariff.

Q. Does DRSC have concerns about Staff's rate design which significantly increases the per therm rates that the school will pay?

A. Yes, it does. The distribution costs that are not related to capacity/demand for the three customer classes are similar. Consequently, it is unfair to the school district to pay a significantly higher per therm rate than DRSC's other customer classes. In addition, rates paid by schools are ultimately paid by DRSC's customers through taxes. Finally, equal per therm rates for all customer classes are easier to explain to customers and to administer. For these reasons, DRSC is recommending that the summer and winter per therm rates be equal for all three classes. DRSC is further recommending that the Commission reject Staff's recommendation for the Above 425 cfh to 1,000 cfh class to pay a significantly higher per therm rate than the other customer classes.

Q. Does DRSC have a recommendation on how Staff's per therm rate could be modified to achieve Staff's surrebuttal revenue requirement without significantly increasing the per therm rates that the school will pay?

A. Yes, it does. Under the Staff proposed rate design methodology, the winter and summer per therm rates could be set at $0.5808 for the Above 425 cfh to 1,000 cfh class and the Below 250 cfh class. The Above 250 cfh to 425 cfh summer and winter per therm rates would remain at $0.2848 as stated in Staff's Schedule SPI-4.

Q. What winter and summer per therm rates are you recommending for all three customer classes?

A. DRSC is recommending the winter per therm rate be set at $0.73 and the summer per therm rate be set at $0.26 for all three customer classes. Refer to rebuttal Schedule H-3 for a comparison of present versus proposed rates. Refer to rebuttal Schedules H-4 pages 1-3 for a typical bill analysis for the three customer classes.

Q. Why is the winter per therm rate that DRSC is recommending significantly higher than the summer per therm rate?

A. During the Test Year, DRSC's customers' peak monthly usage was 83,019 therms in February versus 25,644 therms in lowest month, October. DRSC gas system is built to meet its peak demand (capacity) in the winter months like December, January and February. Customers who use the gas system during peak winter months should pay a higher share of the demand (capacity) related costs than customers who predominantly use gas during summer months.

Q. In its surrebuttal testimony, is Staff still recommending that the interest rate on customer deposits be increased from 3 percent to 6 percent?

A. Yes, it is. Staff is recommending that the interest rate on customer deposits be increased from 3 percent to 6 percent because all other gas utilities have a flat 6 percent interest rate on customer deposits.

Q. In its rejoinder testimony, is DRSC still recommending the same interest rate on customer deposits be adopted as it recommended in its rebuttal testimony?

A. Yes, it is for the reasons stated in my rebuttal testimony. In addition, DRSC does not believe it is fair for its gas customers to pay a higher interest rate on deposits than DVEC's customers must pay. DRSC is recommending that the Commission approve the same interest rate on customer deposits (Three Month Non-Financial Commercial Paper Rate as published by the Federal Reserve) that was approved in DVEC's recent rate case (Decision No. 67433, dated December 3, 2004).

Q. Does that conclude your rejoinder testimony?

A. Yes, it does.

POWERFUL FINANCIAL SOLUTIONS

December 1, 2005

Interest Rates

LONG-TERM FIXED RATES FOR 12/1/05

1 year	6.300%
20 year	6.750%
30 year	6.850%

SHORT-TERM RATES EFFECTIVE 12/1/05

Long-Term Variable Rate	6.250%
Line of Credit/Intermediate	6.100%
Associate Member (5% Loan CTCs)	6.550%
Associate Member (10% Loan CTCs)	6.250%

BANK PRIME RATE ON 12/1/05

7.000%

RUS MUNICIPAL LOAN RATES

Rates for October 1, 2005 – December 31, 2005

YEAR INTEREST TERM ENDS	INTEREST RATE	YEAR INTEREST TERM ENDS	INTEREST RATE
2006	2.875%	2016	3.750%
2007	3.000%	2017	3.875%
2008	3.125%	2018	3.875%
2009	3.125%	2019	3.875%
2010	3.250%	2020	4.000%
2011	3.375%	2021	4.000%
2012	3.500%	2022	4.000%
2013	3.500%	2023	4.125%
2014	3.625%	2024	4.125%
2015	3.750%	2025	4.125%
		2026 or later	4.250%

CFC COMMERCIAL PAPER RATES FOR 12/1/05

DAYS	RATE	DAYS	RATE
1-5	4.075%	37-119	4.425%
6-14	4.100%	120-149	4.475%
15-18	4.150%	150-179	4.525%
19-28	4.300%	180-209	4.600%
29-36	4.125%	210-270	4.625%

To invest in CFC CP call: 800-424-2955

CFC MEDIUM-TERM NOTES FOR 12/1/05

MONTHS	RATE	MONTHS	RATE
10	4.870%	18	4.900%
11	4.880%	19	4.900%
12	4.890%	20	4.900%
13	4.890%	21	4.910%
14	4.890%	22	4.910%
15	4.900%	23	4.910%
16	4.900%	24	4.910%
17	4.900%		

To invest in CFC MTNs call: 800-424-2954, ext. 6731

NOTICE

Fixed Rates for Class A members are quoted each business day. These rates are for selected maturities and are available for loans advanced or repriced today. These rates do not include discounts. Call the CFC Rate Line at 800-599-6782 or visit CFC's website http:\\www.nrucfc.org for rate quotes, for other maturity periods, and for rate information any time during the month.
Variable rates are subject to change monthly or semi-monthly in accordance with the terms of the loan agreement.

Quoted Associate Member rates reflect the value of the different CTC investments related to the two loan types.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION • 2201 COOPERATIVE WAY • HERNDON, VA 20171-3025
703-709-6700 (VOICE) • 703-709-6778 (FAX) • www.nrucfc.org

POWERFUL FINANCIAL SOLUTIONS

December 1, 2005

Investment Rates

The Fed:

As expected on November 1, the Federal Open Market Committee (FOMC) unanimously voted to increase the federal funds rate for the twelfth consecutive time by another 25 basis points to reach a new target rate of 4 percent. The minutes from the FOMC November meeting indicate that Fed members continue to view the U.S. economy growing at a strong pace, albeit a temporary, regional negative impact from the hurricanes. Despite recent favorable inflation data, the FOMC remains concerned about the upside risk to the inflation outlook. The Committee also acknowledged the need to alter its policy statement "before long," and discussed the statement's potential evolution to place a greater dependence of future policy changes on both economic and inflationary developments. Keeping the Fed statement appropriate to current market conditions is a necessary element of the Fed's credibility. In addition, the minutes revealed that the current target rate of 4 percent is within the lower area of some members' neutral range, and the FOMC must be wary of tightening monetary policy too soon or too quickly. The fed funds futures market is still fully pricing in another 25 basis point rate hike at the next FOMC meeting on December 13. Looking further out, the futures market is currently pricing in a 85 percent chance of another rate increase at the FOMC meeting on January 31.

THE ECONOMY:

According to the Bureau of Economic Analysis (BEA) preliminary estimate, GDP rose at a 4.3 percent annual rate during the third quarter, stronger growth than the consensus estimate of 4.0 percent and higher than the previous advance estimate of 3.8 percent. The increase was driven by many components including consumer spending on nondurable goods, housing investment, and business investment. These upward revisions more than offset the upward revision to imports. The U.S. economy continued to push ahead, brushing off the impact of Hurricanes Katrina and Rita. Overall, inflation gauges for the third quarter experienced sharp increases, however core inflation remains low. The government's price index for personal consumption (PCE) rose 3.6%. The PCE core deflator, excluding food and energy rose 1.2% in the third quarter, down from 0.1% from the prior advance estimate.

CFC COMMERCIAL PAPER RATES

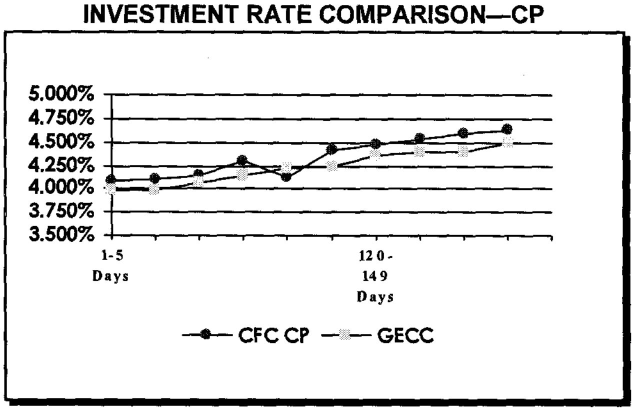
# OF DAYS	CURRENT RATES	90-DAY HISTORY AVERAGE	HIGH	LOW
1-5	4.075%	3.730%	4.075%	3.250%
6-14	4.100%	3.759%	4.100%	3.325%
15-20	4.150%	3.795%	4.150%	3.325%
21-58	4.300%	3.855%	4.300%	3.450%
59-66	4.125%	3.890%	4.125%	3.575%
67-119	4.425%	4.034%	4.425%	3.675%
120-149	4.475%	4.102%	4.475%	3.750%
150-179	4.525%	4.168%	4.525%	3.825%
180-209	4.600%	4.232%	4.600%	3.875%
210-270	4.625%	4.277%	4.650%	3.900%

Spread between CFC 9-month CP & 10-month MTN:0.25%
Spread between CFC 2-year MTN & 1-year MTN:0.02%

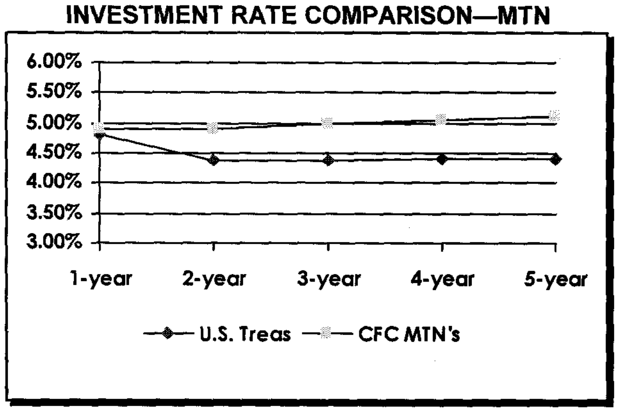
CFC MEDIUM-TERM NOTE RATES

# OF MONTHS	CURRENT RATES	90-DAY HISTORY AVERAGE	HIGH	LOW
10	4.87%	4.52%	4.89%	4.06%
11	4.88%	4.53%	4.90%	4.07%
12	4.89%	4.54%	4.91%	4.08%
13	4.89%	4.55%	4.92%	4.09%
14	4.89%	4.56%	4.92%	4.10%
15	4.90%	4.57%	4.93%	4.11%
16	4.90%	4.58%	4.94%	4.12%
17	4.90%	4.59%	4.95%	4.12%
18	4.90%	4.60%	4.95%	4.13%
19	4.90%	4.60%	4.96%	4.14%
20	4.90%	4.61%	4.97%	4.15%
21	4.91%	4.62%	4.97%	4.16%
22	4.91%	4.63%	4.98%	4.17%
23	4.91%	4.64%	4.99%	4.18%
24	4.91%	4.65%	5.00%	4.19%

INVESTMENT RATE COMPARISON—CP



INVESTMENT RATE COMPARISON—MTN



Note:Stated rates are indicative only. Call (800) 424-2955 for current CFC Commercial Paper Rates and (800) 424-2954 ext. 731 for current CFC Medium-Term Note Rates

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION • 2201 COOPERATIVE WAY • HERNDON, VA 20171-3025
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Federal Reserve Statistical Release

H.15

Selected Interest Rates

Release Date: December 5, 2005

Release dates | Daily update | Historical data | About

Current release *Other formats:* Screen reader | ASCII | PDF (17 KB)

FEDERAL RESERVE STATISTICAL RELEASE

H.15 (519) SELECTED INTEREST RATES
For use at 2:30 p.m. Eastern Time

Yields in percent per annum December 5, 2005

Instruments	2005 Nov 28	2005 Nov 29	2005 Nov 30	2005 Dec 1	2005 Dec 2	Wee Dec 2
Federal funds (effective) 1 2 3	4.01	3.99	4.03	4.03	4.00	4.0
Commercial Paper 3 4 5						
Nonfinancial						
1-month	4.11	4.07	4.11	4.13	4.18	4.1
2-month	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
3-month	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
Financial						
1-month	4.10	4.13	4.15	4.12	4.17	4.1
2-month	4.23	4.25	4.25	4.26	4.28	4.2
3-month	4.28	4.30	4.29	4.29	4.32	4.3
CDs (secondary market) 3 6						
1-month	4.18	4.25	4.25	4.27	4.28	4.2
3-month	4.37	4.37	4.38	4.40	4.42	4.3
6-month	4.54	4.54	4.55	4.59	4.61	4.5
Eurodollar deposits (London) 3 7						
1-month	4.22	4.27	4.28	4.29	4.29	4.2
3-month	4.39	4.40	4.41	4.41	4.44	4.4
6-month	4.57	4.57	4.59	4.61	4.63	4.5
Bank prime loan 2 3 8	7.00	7.00	7.00	7.00	7.00	7.0
Discount window primary credit 2 9	5.00	5.00	5.00	5.00	5.00	5.0
U.S. government securities						
Treasury bills (secondary market) 3 4						
4-week	3.88	3.92	3.93	3.93	3.94	3.9
3-month	3.89	3.89	3.86	3.88	3.90	3.8
6-month	4.16	4.17	4.16	4.17	4.16	4.1
Treasury constant maturities						
Nominal 10						
1-month	3.94	3.99	4.00	3.99	4.00	3.9
3-month	3.98	3.98	3.95	3.97	3.99	3.9
6-month	4.31	4.32	4.31	4.32	4.31	4.3
1-year	4.32	4.35	4.34	4.36	4.35	4.3
2-year	4.33	4.40	4.42	4.45	4.43	4.4
3-year	4.32	4.40	4.41	4.44	4.43	4.4
5-year	4.32	4.40	4.42	4.45	4.45	4.4
7-year	4.35	4.42	4.45	4.47	4.48	4.4
10-year	4.41	4.48	4.49	4.52	4.52	4.4

20-year 11	4.71	4.78	4.81	4.83	4.81	4.7
Inflation indexed 12						
5-year	1.94	2.03	2.07	2.08	2.09	2.0
7-year	2.00	2.08	2.10	2.12	2.13	2.0
10-year	2.04	2.11	2.12	2.15	2.16	2.1
20-year	2.13	2.18	2.17	2.21	2.21	2.1
Inflation-indexed long-term average 13	2.08	2.14	2.13	2.16	2.17	2.1
Interest rate swaps 14						
1-year	4.75	4.79	4.80	4.83	4.85	4.8
2-year	4.75	4.80	4.82	4.87	4.89	4.8
3-year	4.77	4.82	4.85	4.89	4.91	4.8
4-year	4.79	4.85	4.88	4.92	4.95	4.8
5-year	4.82	4.88	4.91	4.95	4.98	4.9
7-year	4.87	4.92	4.96	4.99	5.03	4.9
10-year	4.94	5.00	5.03	5.06	5.10	5.0
30-year	5.14	5.20	5.23	5.25	5.28	5.2
Corporate bonds						
Moody's seasoned						
Aaa 15	5.30	5.37	5.42	5.45	5.44	5.4
Baa	6.30	6.36	6.38	6.39	6.39	6.3
State & local bonds 16				4.53		4.5
Conventional mortgages 17				6.26		6.2

n.a. Not available.

Footnotes

1. The daily effective federal funds rate is a weighted average of rates on broke

2. Weekly figures are averages of 7 calendar days ending on Wednesday of the curr figures include each calendar day in the month.

3. Annualized using a 360-day year or bank interest.

4. On a discount basis.

5. Interest rates interpolated from data on certain commercial paper trades settl Depository Trust Company. The trades represent sales of commercial paper by deale issuers to investors (that is, the offer side). The 1-, 2-, and 3-month rates are 30-, 60-, and 90-day dates reported on the Board's Commercial Paper Web page (www.federalreserve.gov/releases/cp/).

6. An average of dealer bid rates on nationally traded certificates of deposit.

7. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.

8. Rate posted by a majority of top 25 (by assets in domestic offices) insured U. commercial banks. Prime is one of several base rates used by banks to price short loans.

9. The rate charged for discounts made and advances extended under the Federal Re credit discount window program, which became effective January 9, 2003. This rate adjustment credit, which was discontinued after January 8, 2003. For further info www.federalreserve.gov/boarddocs/press/bcreg/2002/200210312/default.htm. The rate for the Federal Reserve Bank of New York. Historical series for the rate on adjus well as the rate on primary credit are available at www.federalreserve.gov/releas

10. Yields on actively traded non-inflation-indexed issues adjusted to constant m